



Q3  
2023

West Michigan  
Multifamily

# QUARTERLY MARKET REPORT

Figure One: Average Rent Changes Year-Over-Year

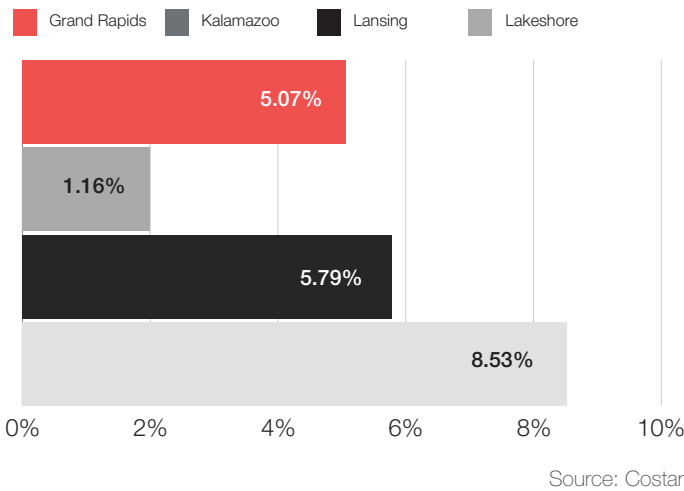
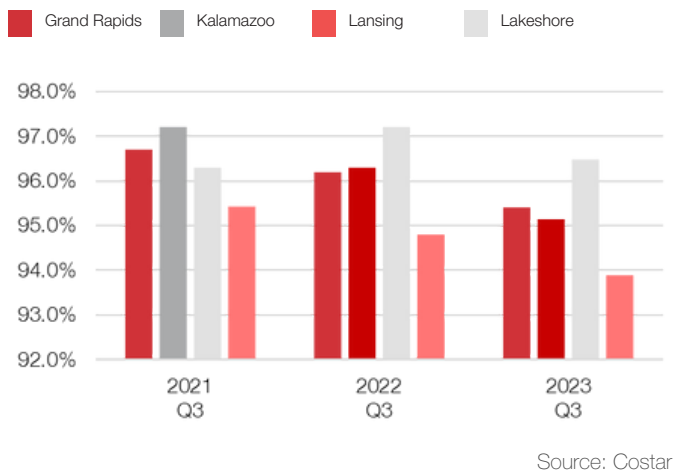


Figure Two: Occupancy Changes Year-Over-Year



## LEASING MARKET TRENDS

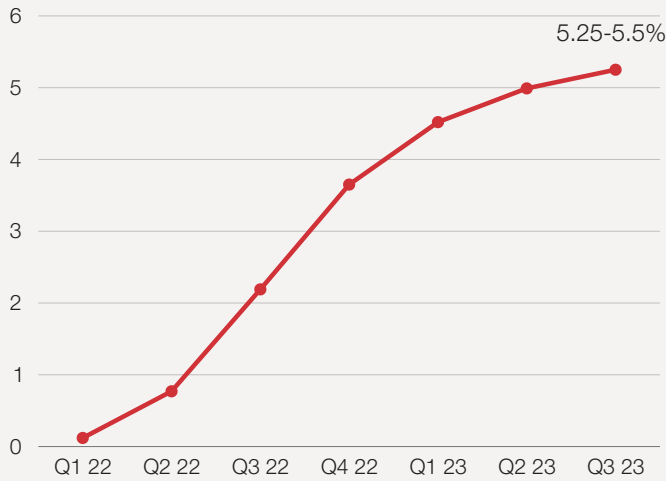
- The West Michigan leasing market fundamentals held firm throughout the Q3 leasing cycle. One of the major factors leading to this is the limited supply, so more renters competed for fewer options.
- Unlike many major markets nationwide, more new apartments made it easier for renters to find a rental this summer compared to one year ago. Consequently, rent growth has decelerated in many of these major metros.
- While most major markets across the nation experienced an uptick in year-over-year vacancy, West Michigan remained more resilient due to the “slow & steady” pace of new supply. Occupancy improved marginally from 95.2% in Q2 to 95.4% in Q3. This is above the national average of 94.8%.
- Rent growth continued to show signs of normalizing in Q3. The parabolic rise nationwide following the pandemic is firmly in the rearview mirror. The primary West Michigan markets are generally returning to healthy rent growth levels in the 3 to 5 percent range. Kalamazoo, however, was an outlier in our data and saw minimal rent growth of 1.1% YoY.

## WEST MICHIGAN CONSTRUCTION PIPELINE

Location	Lease-Up	Under Construction	Approved	Proposed
Grand Rapids	1,802 units	1,720 units	3,362 units	1,084 units
Kalamazoo & Battle Creek	851 units	521 units	293 units	1,060 units
Lakeshore	1,006 units	798 units	1,477 units	1,429-1,479 units
Lansing	596 units	833 units	788 units	503 units

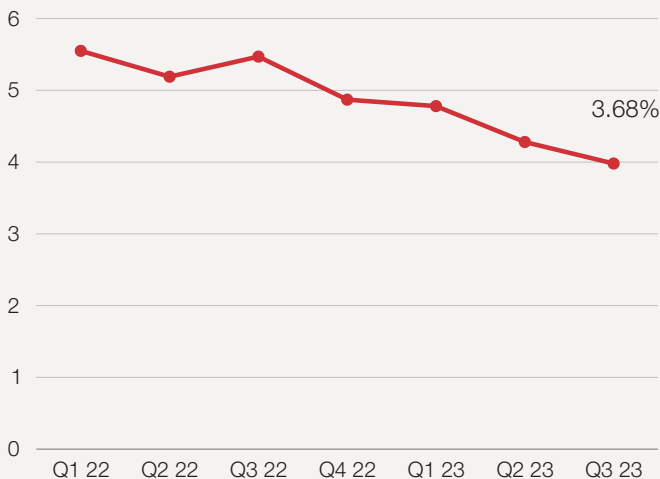
Source: NAI Wisinski Great Lakes

Figure Three: Federal Funds Target Rate



Source: Federal Reserve Bank of St Louis

Figure Four: U.S. Core PCE Index Year-Over-Year



Source: U.S. Bureau of Labor Statistics

## CAPITAL MARKETS

It's becoming increasingly clear that we're navigating through some of the most challenging waters in the current real estate investment cycle. The pace of upward-shifting interest rates have added a significant layer of complexity and a partial roadblock to an otherwise healthy and attractive marketplace.

The total value of transactions YoY for West Michigan has seen a 23 percent decline from the peak levels witnessed in 2022. Still, this statistic only provides a partial view of the Fed's broader impact on the slowdown in activity. The total number of transactions is down by 80 percent across the West Michigan markets. MSCI Real Capital Analytics says total transactional volume is down 72% nationally.

Several large deals throughout 2023 have propped up the stats for the year so far. Notably, California-headquartered FPA Multifamily closed on a 924-unit portfolio of Woodland Creek and Woodbridge Apartments in Kentwood for \$135 million earlier in the third quarter.

The decline in volume within the West Michigan multifamily investment sales market in 2023 reflects these higher costs of capital and the broader economic impact of the Federal Reserve's eleven interest rate hikes since March. Inflation by the Fed's preferred gauge was 3.68% (PCE and not CPI) in September, down by more than half from last summer's peak but still well above the U.S. central bank's 2% goal.

Chair of the Fed, Jerome Powell, confirmed that the Committee is still very much focused on whether monetary policy is sufficiently restrictive to bring inflation down to 2% in a sustainable manner and that the next question would be for how long. He stressed that the Committee is "not thinking about rate cuts right now at all." Though, the market will be paying close attention to upcoming meetings.

### Federal Open Market Committee Meetings 2023 - 2024

December 12-13, 2023	July 30-31, 2024
January 30-January 31, 2024	September 17-18, 2024
March 19-20, 2024	November 6-7, 2024
April 30-May 1, 2024	December 17-18, 2024
June 11-12, 2024	

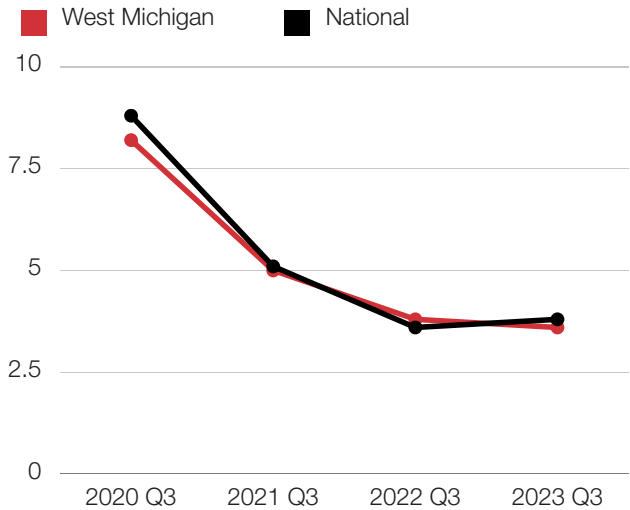
Source: Federal Reserve Economic Data

### REGIONAL DEMAND DRIVERS

Several key demand drivers continue to benefit the multifamily market in West Michigan and beyond.

- Population growth and household formation remain healthy in West Michigan. A recent study by HousingNext determined that Kent County in Grand Rapids will need 35,000 housing units by 2027 to meet growing demand.
- Renting remains meaningfully more economical than home homeownership. The spread between home ownership and rental costs has grown by approximately 9% since the start of this year. Pricing has held up in the SFH market despite record-level interest rates. This is primarily due to an acute lack of inventory.

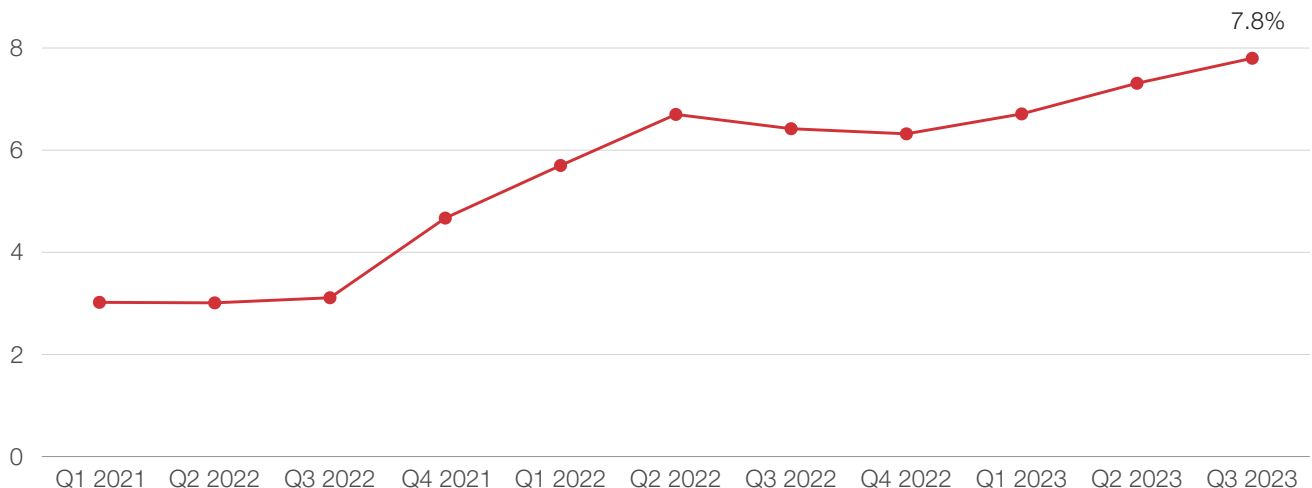
Figure Five: Q3 Unemployment Rate



Source: Federal Reserve Economic Data

- The single-family, 30-year mortgage rate sits at 7.8%. As rates rise, the single-family buyer pool is shrinking. Further benefitting demand for multifamily as would-be buyers are forced into renting. According to the Mortgage Bankers Association, mortgage application activity has fallen yet again, reaching the lowest levels since May 1995.
- According to the St. Louis Bureau of Economic Analysis, consumers have more debt and less savings, which is further contributing on a macro level to the inability to purchase single-family homes. Short-term (credit card) debt hit over \$1 trillion in Q3, an all-time high, and savings are at their lowest point since March 2008 at 3.4% of all disposable income.
- Despite near-term inventory growth, supply is likely to tighten as construction starts slow on account of increased costs of financing. This is despite other construction costs, including materials, stabilizing post-pandemic.

Figure Six: 30-Year Fixed Rate Mortgage Average in the United States



Source: Federal Reserve Economic Data

**OUTLOOK**

Our outlook for the rest of the year and into 2024 is one of cautious optimism. Positively, the Fed noted that a recession in the United States is off their agenda. The combination of economic resilience and moderating inflation has given fed officials hope that they might be able to slow growth gradually and relatively painlessly in a rare “soft landing.”

We believe that multifamily operating fundamentals will remain positive in West Michigan, and occupancy will remain stable and within the current 95.4% range, slightly above the national average of 94.8%. The construction pipeline remains slow and steady with little risk of oversupply.

Consequently, rents will continue to see modest growth but closer to normalized long-run averages than the highs witnessed following the pandemic. Construction starts are likely to slow down further, given the costs of financing.

We expect the investment sales market to continue to perform at drastically reduced velocity for the rest of 2023, with some creative deals still happening. In some corners, sophisticated buyers and sellers are still finding innovative ways to transact. The first half of 2024 is likely to perform in the same way. Motivated sellers are likely to undergo further price discovery if they want to transact as cap rates continue to expand.

Nonetheless, driven by favorable demographics, a controlled supply pipeline and strong demand drivers, our medium-term outlook for the West Michigan market remains positive.

**RECENT TRANSACTIONS THROUGHOUT WEST MICHIGAN**



**BRIARCLIFFE APARTMENTS**

City: Lansing, MI  
 Units: 308  
 Year built: 1972  
 Sale price: \$25,500,000  
 Price per unit: \$82,792



**WOODBRIIDGE NORTH**

City: Grand Rapids  
 Units: 168  
 Year built: 1981  
 Sale price: \$22,750,000  
 Price per unit: \$135,714



**CHERRY GROVE APARTMENTS**

City: Mason, MI  
 Units: 44  
 Year built: 1964  
 Sale price: \$2,750,000  
 Price per unit: \$62,500



**WOODLAND CREEK**

City: Grand Rapids  
 Units: 756  
 Year built: 1987  
 Sale price: \$112,500,000  
 Price per unit: \$148,810



**ROYALE GLENN APARTMENTS**

City: Muskegon, MI  
 Units: 78  
 Year built: 1994  
 Sale price: \$4,250,000  
 Price per unit: \$54,487



**THE ROCKS AT MSU**

City: East Lansing  
 Beds: 320  
 Year built: 2015  
 Sale price: \$18,250,000  
 Price per bed: \$49,059

# NAI WISINSKI GREAT LAKES MULTIFAMILY TEAM

For a free Broker Opinion of Value, please contact:  
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## REGIONAL MARKET EXPERTISE. GLOBALLY CONNECTED.

NAI Global, headquartered in New York City, has over 325 individual offices in 63 countries around the world. This enables our team, as representatives of the Great Lakes Region, to engage with an expansive network of multifamily owners, developers, and buyers involved with transactions that include market rate, student, senior, and affordable housing. NAI Global offers institutional level marketing and sale capabilities by utilizing a world class brokerage platform. In conjunction, we conduct broad based direct calling to prospective buyers. There is no substitute for this approach, which allows us to generate the most offers and highest price for your property. Furthermore, our team approach allows us to handle multiple complex transactions and still maintain great client communications.

<b>5,800</b> Network of professionals	<b>\$20B</b> Total annual transaction value
<b>325+</b> Offices	<b>63</b> Countries

